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DEPT FOR SCA/FO, SCA/RA, AND SCA/A

DEPT PASS AID/ANE

DEPT PASS USTR FOR DEANGELIS AND DELANEY

DEPT PASS OPIC FOR ZAHNISER

DEPT PASS TDA FOR STEIN AND GREENIP

USOECOD FOR ENERGY ATTACHE

CENTCOM FOR CSC-A

NSC FOR JWOOD

TREASURY FOR LMCDONALD, ABAUKOL, BDAHL, AND MNUGENT

OSD FOR SHIVERS

COMMERCE FOR DEES, CHOPPIN, AND FONOVIDH

SENSITIVE

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SUBJECT: COMMERCE DEPMIN FARHADI ON WTO ACCESSION, ETC.

REF: A) KABUL 2810 B) KABUL 3086

**¶1.** (SBU) Summary and Comment. Afghan Deputy Commerce Minister Farhadi says launching the WTO accession process is one of his highest priorities, but he expressed uncertainty about finalizing Afghanistan's Memorandum of Foreign Trade Regime by year-end, citing capacity weakness at the ministry. He complained about trade-policy disagreements between the Commerce and Finance ministries and about Parliamentary opposition to privatizing state-owned enterprises. Farhadi said he aimed to make Commerce a force for economic and private sector reform but could only succeed with lots of external assistance. While help for trade policy and private sector development, some of it for the Commerce Ministry (MOCI), is indeed needed and on the way, we will proceed carefully given MOCI's long history of obstructing economic reform. DepMin Farhadi, in particular, has in other positions been an unreliable partner to the United States and the international community despite considerable external assistance. End Summary and Comment.

USAID'S NEW TRADE PROGRAM

**¶2.** (SBU) EconCouns and USAID Economic Growth (EG) Office chief met December 3 with Deputy Minister of Commerce and Industries Adib Farhadi to discuss a range of trade-related issues. EG chief described USAID's forthcoming Trade and Accession Facilitation for Afghanistan (Tafa) program. This is a successor to USAID's Economic Governance and Private Sector Strengthening project, which ends in February 2009 and also aims to build capacity at MOCI. EG chief said the U.S. considered it important to split out trade and customs work for special emphasis in the new program. It would have three components: trade policy liberalization, 2) trade facilitation, including implementation of Reconstruction Opportunity Zone preferences, and 3) public outreach on trade issues.

**¶3.** (SBU) EG chief said USAID hoped to complete the Scope of Work in a few weeks and put it out for bid by contractors, and hoped to avoid a gap between old and new programs supporting MOCI. Farhadi welcomed the new program and urged swift commencement.

WTO ACCESSION

**¶4.** (SBU) Farhadi said launching Afghanistan's WTO accession process was one of his highest priorities. On a recent visit to Geneva, he said, WTO officials expressed disappointment with the GiroA for the long delay in submitting its Memorandum of Foreign Trade Regime (MFTR). The Netherlands has resigned as informal champion in Geneva of Afghanistan's application. He said the MFTR is nearly completed but must be revised to conform to the Afghan National Development Strategy. Given capacity weakness at MOCI, he was not sure he would be able to finalize and deliver the MFTR to Geneva by year-end, as Minister Farhang had earlier forecast. Farhadi noted that WTO accession remains politically controversial, and Farhang wants to avoid criticism of the GiroA from Parliament. Although the original version of the MFTR received approval, President Karzai stated that the revised document should be approved again by the full cabinet before submission to Geneva. However, Farhadi said he hoped to proceed after securing buy-in from just a few key ministries and donors.

**¶5.** (SBU) EconCouns noted that donors and MOF officials were making progress on setting up an "economic reform window" in the Afghanistan Reconstruction Trust Fund (ARTF). One benchmark donors were likely to ask the GiroA to meet was submission o the MFTR to Geneva by a date certain. Farhadi welcomed this development and urged that donors reward achievement of policy benchmarks with provision of discretionary funds - exactly what the ARTF reform process contemplates. EG chief noted that since the current

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contractor has seen the MFTR, the document should be available to all prospective bidders on the new project upon request. Farhadi had no objection.

#### TRADE POLICY "STUCK"

¶16. (SBU) Farhadi lamented that the Afghan government "has no trade policy" and donors sometimes give conflicting advice. As an example of the former, he said the GIROA skipped two recent SAFTA experts meetings because MOCI and MOF could not agree on what products to put on Afghanistan's sensitive list. MOCI, he said, favors more liberalization (fewer sensitive items) while MOF says cutting import tariffs too quickly will reduce customs revenues and cause the GIROA to miss targets under its IMF program. The IFIs, Farhadi said, support MOF in this dispute. When the two ministers bring their disagreement to President Karzai, he tells them to work it out themselves, but they can't. EconCouns urged Fahadi to regard WTO accession as the central element of Afghan trade policy and said there was no disagreement among donors that WTO membership was desirable for Afghanistan.

#### REGIONAL COOPERATION

¶17. (SBU) Farhadi was more upbeat about the "tremendous cooperation with Pakistan" in evidence at the recent meeting of the Afghan-Pak Joint Economic Commission (ref B). He sought USG support in the GIROA's bid to enable Afghan trucks to transit Pakistan en route to India, and said the GIROA was considering a new MOU on trade with India that would be necessary if Pakistan allowed such transit. At our urging, Farhadi said the GIROA would be willing to send a delegation to Islamabad in January to negotiate a new bilateral transit agreement despite the Regional Economic Cooperation Conference (RECC) having been postponed. He said the USG should also give diplomatic support for early transit talks. In view of the RECC's postponement, Farhadi said he was recommending to President Karzai that he propose holding the RECC in a country other than Pakistan.

#### CENTRAL BUSINESS REGISTRY

¶18. (SBU) Farhadi said he was concerned that MOCI would not be able to maintain the newly-lunched, USAID-funded Central Business Registry (CBR) after USAID contractors now running it depart in February. MOCI-paid employees do not know how to run the system, and contractors have not passed this knowledge to these employees to ensure sustainability. Farhadi said he hoped eventually to move CBR out of the MOCI building and make it an independent or loosely-tied service agency that could generate its own revenues. We noted the importance of extending CBR to the provinces and that this could be another benchmark for the ARTF reform window. Farhadi welcomed this and said he hoped to extend CBR at least to major provincial cities in 2009.

#### RESTRUCTURING THE COMMERCE MINISRY

¶19. (SBU) Farhadi said he hopes to restructure and streamline MOCI, which he said has not changed since the Soviet occupation. A new organizational structure would enable the ministry to eliminate duplication and be more market-oriented. MOCI also needs improved capacity to monitor and evaluate progress on implementing ANDS commitments related to private sector development. He suggested that restructuring MOCI be made an ARTF reform-window benchmark.

#### U.S. EXPORT CONTROL ASSISTANCE

¶10. (SBU) Farhadi said MOCI lacked funds to operate new equipment the EXBS program would deliver later this month to raise export

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control capacity. He said MOCI wants this program to succeed but faces a constraint on IT support. EconCouns undertook to look into the matter.

#### PRIVATIZATION BACKLASH

¶11. (SBU) Farhadi said Parliament has passed a regulation under the State Owned Enterprise law requiring that all liquidations be approved by Parliament. Workers at such enterprises who fear they will lose their jobs have written Parliament complaining about Farhadi's support for privatization. He must now appear before a Parliamentary committee and explain his position. Farhadi warned that anti-reform sentiment will increase as elections next year approach and appealed to the USG to "be patient with us."

#### HARRASSING FUEL IMPORTS

¶12. (SBU) EconCouns informed Farhadi about restrictions placed in recent days on fuel imports by a U.S. military contractor at the northern border city of Hayretan in violation of the bilateral DoD-GIROA agreement governing such imports. FLGE, the government's fuel import agency under MOCI, would allow the contractor to use its own off-loading facility at Hayretan rail depot only if it submitted to a spurious safety inspection costing \$15,000. EconCouns noted the history of corruption at FLGE and stressed the urgency of resolving the matter as the fuel was needed for the war effort.

¶13. (SBU) Farhadi said he knew of the problems at FLGE and had tried to effect change, but without success. An international auditing firm hired to examine FLGE was about to give up on the job because FLGE would not share its books (comment: if it even has any). Meanwhile, at the last cabinet meeting, Karzai had instructed FLGE to import \$10 million worth of fuel. The President, Farhadi said, is frustrated that the price of fuel in Afghanistan has not fallen as much as world prices. "Unwritten price controls" are now in effect, two gas stations have been closed for over-charging, and Karzai has authorized the rescinding of traders' licenses. Farhadi undertook to look into the problem at Hayretan and later the same day informed EconCouns that the shipments in question could be moved and without any safety inspection at the contractor's facility, facts later confirmed by the contractor. (Comment: while Farhadi was keen to take credit for freeing the shipment, post understands a visit to Hayretan the same day by uniformed U.S. Transcom officers

probably played a more important role.)

COMMENT

¶14. (SBU) Farhadi's comments and his focus reveal much of what is wrong with MOCI. Beyond its lack of capacity, we question its priorities. Launching the WTO accession process is not unimportant but may not bring tangible benefits for years to come. Farhadi and the MOCI also need to focus on commercial laws that have now languished for over 18 months owing to MOCI's inability and lack of commitment to getting them through, and in some cases even to, Parliament. They also need to focus more on implementing other long-standing GIRoA commitments to improve the climate for private business and stop linking progress there to infusions of additional external aid. Farhadi is a smooth spokesman, skilled at admitting his new ministry's shortcomings, which he knows we also recognize. Unfortunately, he is stronger on talk than walk.

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